AAVs receive only 1.1% of Sprint's access dollars in Los Angeles, and only 1.8% in San Francisco.

Pacific's assertions as to the number of collocated cross-connects and the number of minutes terminated from CLECs may sound large in absolute terms, but they say little about the relative amount of traffic actually handled by competitors. Sprint estimates that the 101 million minutes of traffic terminated from CLECs in December represented something on the order of one-half of one percent of Pacific's total traffic. A 99.5% market share is hardly indicative of widespread, vigorous and effective competition.

In sum, the RBOCs' claims that the local market is (or soon will be) sufficiently competitive to warrant large-scale deregulation and reliance on "market" forces to bring about cost-based access charges are simply out of synch with reality. There is nothing remotely approaching even one ubiquitous facilities-based competitive local network in existence today and no more than sporadic offerings of competing local service even on a resale basis. By contrast, AT&T faced competition for several years from three nationwide facilities-based carriers and scores of regional facilities-based carriers and resellers before the state of competition was such as to begin to warrant deregulation. And even then, deregulation proceeded in measured terms: first, optional calling plans, then price cap regulation, followed by contract tariffs and streamlined pricing. Forbearance was granted only after AT&T's market share had fallen to the range of 50%. Like impatient children that want at the outset everything their parents have taken years to accumulate, the "Baby Bells" want all of "Ma Bell's" freedoms without first shedding more than one or two percent of their market share. In view of all the business uncertainties that surround the future course of local competition,

and particularly the lack of a facilities-based alternative to the ILECs, it would be premature to rely on a "market-based" solution at this time; indeed, such a course could forestall the emergence of effective local competition.

V. MARKET-BASED APPROACH TO ACCESS REFORM (¶¶161-217)

The very nature of the "market-based" relief the RBOCs seek shows that it is grossly premature. They seek virtually complete deregulation while their local service and access monopolies are nearly intact. In general, they argue that the sole Phase One "trigger" should be the existence of one interconnection agreement that has been approved by a state regulatory commission, and in return for satisfying that trigger they seek all of the pricing flexibility proposed in the NPRM and more. Beyond that, U S West, for example (at 37, 40), seeks total forbearance from regulation of access charges the moment it loses a single customer to a competitor. The RBOCs are so obviously overreaching in their requests for deregulation that their comments and contentions do not merit detailed, point-by-point rebuttal.

Sprint reiterates its view that deregulation should occur as meaningful competitive circumstances warrant. And it is worth noting that with the current level and structure of interstate access charges, existing LEC revenue streams are highly vulnerable as soon as only a little competition takes hold. As Sprint pointed out in its initial comments (Exhibit 1), only .7% of the Sprint ILECs' business customers account for nearly a fourth of the total carrier common line revenues generated by calls to and from their business customers. However, the restructuring of access charges and their measured reduction to TELRIC-based levels that Sprint has proposed would remove this unwarranted vulnerability to competition. Sprint's

plan affords the Commission the luxury of time to observe how effective competition really is before deciding how far and how fast to deregulate access charges. Thus, Sprint continues to adhere to its view that the "market-based" approach to access charges should be confined, for the time being, to measures that are sound regardless of whether actual competition exists or is even just around the corner, and to defer consideration of further deregulatory steps until actual marketplace circumstances warrant such further relief.

As Sprint discussed in its initial comments (at 41-43), the one measure the Commission should take when its proposed Phase One triggers have been met, in addition to the streamlined procedures for the introduction of new services that were adopted as amendments to its rules in conjunction with the NPRM, is geographic deaveraging of all access rate elements, without the current constraint that the initial price cap indices in each geographic zone must be the same. This action would enable ILECs to respond both to their underlying cost structures and to the potential emergence of meaningful competition by adjusting their rates to cost-based levels in the various markets they serve. Given the ubiquity of the ILECs' local networks and the economies of scale that this ubiquity engenders, this powerful tool should give the ILECs sufficient pricing flexibility for some period of time to respond legitimately to competition without the dangers of discrimination or favorable self-dealing that the other proposed measures for Phase One would engender. ¹⁵

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¹⁵MCI documents that many of the RBOC have failed to take full advantage of the more limited geographic deaveraging allowed under current rules (see MCI at 48-51). This failure to utilize the tools now available is a strong indication that the ILECs do not yet need the far more dangerous tools of single customer pricing, aggregation of price cap baskets, etc., that they seek.

AT&T (at 78-80) opposes any further geographic deaveraging. AT&T implicitly concedes -- as it must -- that loop costs vary by geography and density, but claims that switching and transport costs do not, relying solely on the fact that state commissions have not ordered deaveraging of unbundled elements such as switching and transport. The fact that state commissions thus far have not undertaken to establish deaveraged rates for transport and local switching elements is hardly surprising. Up to this point, the state commissions have only established interim rates, in many cases relying on, or drawing heavily from, the proxy rates proposed in the Commission's Interconnection Order. It is very difficult to establish geographically deaveraged rates without the detailed cost studies that the state commissions will need to use to establish permanent rates for unbundled elements. Indeed, Sprint, the leading proponent of density-based geographic deaveraging, petitioned for reconsideration of the portions of the Interconnection Order that required geographic deaveraging of interim proxy rates, because of the inherent arbitrariness of deaveraging a rate that is based on a proxy instead of the costs of the particular carrier in question. In

It is hard to entertain a serious claim that neither switching nor transport costs vary with traffic density. Despite AT&T's intimation to the contrary (n.121 at 79), the FCC did

However, their existing practice of establishing lower local rates in higher-cost, lower-density

¹⁶Even when such cost studies are available, some state commissions may be reluctant to implement density-deaveraged rates for unbundled network elements for fear that doing so would lead to the logical conclusion that local service rates should also vary, to some extent, inversely with density, a result that might be politically unpalatable to some state commissions.

areas than in low-cost urban areas may be reflective of many states' preference for political, rather than economically sound, policies, and this preference should not dissuade this Commission from pursuing the correct policies for interstate access charges.

¹⁷ <u>See</u> Sprint's Petition for Limited Reconsideration and/or Clarification, filed September 30, 1996 in CC Docket No. 96-98, at 7-9.

have cost studies conducted by the Sprint LECs before it when it determined that transport costs varied sufficiently with density as to warrant density deaveraging in CC Docket 91-141. And even without such evidence, the Commission would have been fully justified in prescribing density-based deaveraging for transport. Interoffice traffic volumes more fully utilize (and thus lower the unit costs of) fiber optic interoffice facilities than traffic volumes in less dense areas. And with respect to switching, Sprint submitted evidence with its initial comments (see Exhibits 9 and 10) showing an obvious correlation between the unit costs of a switch and the number of access lines served by the switch.

AT&T's objection to further geographic deaveraging appears to stem from concerns that the ILECs would not price properly in each density zone, but would cross-subsidize below-cost access rates in high density areas with above-cost rates in low density areas, and that the deaveraging of access charges would conflict with the requirements in §254(g) that interexchange carriers maintain averaged toll rates. These concerns are not illegitimate, but with a sound approach to access reform and regulation, they may not materialize. In the first place, Sprint believes that the ILECs should be required to geographically deaverage their access charges only on a showing, supported by cost studies, that the deaveraged rates properly reflect the cost differences associated with different density zones. Adherence to this cost study requirement would remove the threat of improper cross-subsidization.

With respect to the §254(g) issue raised by AT&T, if non-traffic-sensitive costs are charged directly to the end user, as Sprint has proposed, the only carrier-paid access charges that would be subject to density deaveraging would be traffic-sensitive local switching and transport. And while Sprint firmly believes that those costs do vary with density, it is unlikely

that they vary so radically with density that they will have a marked impact on the IXCs' ability to continue to offer averaged rates. This is particularly true as those rates are reduced to TELRIC-based levels. In this regard, it is worth noting that access charges are already deaveraged within states. The RBOCs' rates, by and large, are significantly lower than the rates of smaller LECs that serve the rural areas of a state. These rate differentials thus far have not prompted geographic deaveraging of toll rates within a state and it is unlikely -- particularly with the elimination of the carrier common line charge and non-traffic-sensitive switching charges proposed by Sprint -- that deaveraging within a company will necessitate toll rate deaveraging. In any case, if deaveraged access charges later prove to be incompatible with averaged toll rates, the Commission can take appropriate action (e.g., return to averaged rates or forebear from enforcing §254(g)) at that time. However, if NTS costs -- particularly loop costs -- continue to be recovered in any fashion from IXCs and are charged by ILECs through deaveraged rates, then, because of the magnitude of these costs and their substantial variability with density, forbearance from §254(g) would be warranted.

VI. PRESCRIPTIVE APPROACH TO ACCESS REFORM (¶¶218-140)

AND

VII. TRANSITION ISSUES (¶¶241-270)

As suggested in Section IV above, Sprint believes that some form of prescriptive action is necessary to lower access charges to forward-looking economic costs.

"Prescription" should not be viewed in this context as heavy-handed government regulation.

Instead, it is simply a responsibly managed transition from a monopoly to a more competitive environment. Sprint's access reform plan, summarized in Section I of these reply comments

and described in more detail in Section VI of its initial comments, calls for a combination of rate restructuring and rate prescription to accomplish this end.

Sprint believes its approach has several advantages over the prescriptive approaches of other parties. First, by assigning NTS costs to the end user using the historical, embedded costs now embodied in existing access charges, and by eliminating the TIC over time through targeting the entire price cap productivity factor to this element, Sprint's plan renders the heated contentions of some RBOCs that they are entitled to every nickel of their existing revenue requirements largely academic. Whether they are entitled to their embedded NTS costs will be a matter between themselves and their end user customers as competition takes hold and gives those end users an alternative source for connection to the network. Targeting the entire productivity factor against the TIC also removes any legitimate claim that the TIC is being "confiscated" from them. It is not unlike the amortization of inside wire costs that occurred when inside wiring was deregulated. Thus, the only costs they are being forced to "eat" under Sprint's plan are the difference between current price levels and TELRIC-based prices for traffic sensitive local switching and transport. Sprint estimates that those costs amount to in the neighborhood of only \$1.1 billion -- just one percent of the total 1995 revenues of GTE and the RBOCs. And depending on the magnitude of offsets for increased universal service funding, that \$1.1 billion amount could be cut further. Directing those carriers to become (collectively) a \$108 billion enterprise instead of a \$109 billion enterprise (ignoring their other opportunities for revenue growth), and giving them up to five years to reach that result, is simply not a big deal.

Sprint's plan is also superior to the recovery of the difference between TELRIC-based costs and embedded costs through trumped up "public policy" rate elements that would simply preserve, for all time, existing revenue streams and insulate the ILECs from the pressure of competition. Sprint's plan subjects the TIC to competitive forces by making it inapplicable in cases where IXCs use alternative access vendors for transport. In addition, by requiring offsets of incremental universal service funding against existing access charges, and precluding RBOC in-region interexchange entry until all of their access rates have been reduced to TELRIC levels, Sprint's plan gives competition a meaningful chance to have its effect on access charges.

Finally, Sprint's plan is superior to the proposals of some IXCs to artificially inflate the price cap productivity factor or consumer productivity dividend as a means of reducing rates to TELRIC levels. In fact, Sprint's plan recognizes that price cap regulation must change when TELRIC-based prices have been established for access, since it is unlikely that TELRIC costs will fall as fast as the current productivity factor (which is reflective of the gradual economies of introducing forward-looking technologies) would support.

VIII. CONCLUSION

Sprint believes that its plan for access reform is a measured and balanced plan that will, in conjunction with universal service reform, benefit consumers, place access charges on a far sounder economic footing than they are today, and promote fair competition in both

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local and interexchange markets. Sprint urges the Commission to adopt this plan and implement it immediately.

Respectfully submitted,

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COMPTEL COMPETITIVE TELECOMMUNICATIONS ASSOCIATION

For Immediate Release February 12, 1997

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COMPETITIVE TELECOM INDUSTRY CALLS ON RBOCs AND GTE TO **OPEN LOCAL MARKETS FOR CONSUMERS**

Washington, D.C. - A coalition representing over 200 companies and business users who are attempting to give residential and business customers a choice of local telephone service providers today called upon the Regional Bell Operating Companies (RBOCs) and GTE to comply immediately with the Telecommunications Act of 1996. They urged that the FCC and state public utility commissions demand and ensure that the RBOCs and GTE permit local competition to become viable by providing fully effective operations support systems to new entrants.

At a press conference today at the City Club of Washington hosted by the Competitive Telecommunications Association (CompTel) -- an industry group comprising over 200 competitive telecom companies -- representatives of CompTel, AT&T, MCI, Sprint, WorldCom Inc., LCI International and the International Communications Association, an association of business users of telecom services, outlined the dismal record of the RBOCs and GTE more than a year after Congress passed and President Clinton signed the Telecommunications Act, which promised to open all telecommunications markets to competition.

Specifically, the competitive industry representatives described how the RBOCs and GTE thus far have failed or refused to provide the critical operations support systems (OSS) that will determine whether a competitor will be able to provide services that are comparable to those of the entrenched incumbent. Last August, the FCC ordered that these electronic operations support systems be operational by January 1997. Unfortunately, the RBOCs and GTE have not met this requirement. In fact, no electronic operations support systems exist anywhere for ordering and processing of unbundled combined network elements (the "Network Platform"), and only limited and inadequate systems exist for resale.

The industry representatives announced the formation of a joint working group, the Local Competition Users Group (LCUG). This group, composed of representatives of LCI, WorldCom, Sprint, MCI and AT&T, will ensure that the RBOCs and GTE implement OSS interfaces and processes that will enable a competitive environment, to monitor implementation and to ensure enforcement. In making the announcement today, the LCUG released a 36-page paper entitled, "Foundation for Local Competition: Operations Support Systems Requirements For Network Platform and Total Service Resale." The LCUG will issue a periodic "report card" to apprise the public and policymakers of the status of implementation of these building blocks for effective local telecommunications competition by various of the RBOCs and GTE.

"The RBOCs and GTE, a full year after passage of the Act, still have utterly failed to provide the critical support systems which will enable competitors to hook customers up to their vast networks to compete effectively with the monopolists," said James M. Smith, President of CompTel.

H. Brian Thompson, Chairman of CompTel and Chairman and CEO of LCI International Telecom Inc., explained that local competition cannot succeed as long as the RBOCs and GTE refuse to provide electronic operations support systems that would allow new entrants to obtain customer information and process their orders.

"Although a few RBOCs have established different and partially manual systems for resale operations, no RBOC to date has established the systems required by the Act and the FCC to support the Network Platform. The Platform is crucial for new entrants to compete head-on with the RBOCs and GTE, and reduce costs, on the way to full facilities-based competition," said Thompson.

The Congressional authors of the Telecom Act recognized that the monopoly local telephone networks built over the last 100 years, which now comprise millions of route miles and over

140 million subscriber lines, cannot be duplicated overnight by new competitors. Congress directed the monopolies to give new competitors full and fair access to the established local networks at cost-based rates. In return, Congress mandated that the Bell Companies could provide long distance services after they fully opened their local networks to effective competition by, among other things, providing "nondiscriminatory access to unbundled network elements".

The industry group observed that the key real-world question is: "Can a customer order and receive the same type and quality of service from a competitor that it can from the RBOCs and GTE?" "Without fully functioning OSS provided, as required by law, to new competitors by those companies, the answer is a resounding NO, and real competition simply will not happen on a broad scale," asserted CompTel's Smith.

The industry representatives presented a set of five questions that consumers and policymakers should use to ensure that consumers benefit from the competitive local markets envisioned by the Telecommunications Act. These questions can only be answered in the affirmative when the RBOCs and GTE begin providing fully functioning OSS for the Network Platform, as well as resale, to new entrants.

One: Can the Customer Easily Order Service from the New Competitor?

- Can the customer place an order and have installation dates confirmed on the initial call?
- Can the competitor have immediate access to the information needed to create the order?

Two: Will the RBOC or GTE Promptly Accept the Order from the Competitor for Processing?

- Will they accept orders from competitors electronically, without manual intervention?
- Do they have adequate ordering systems?
- Will they promptly accept customer changes?

Three: Does the Customer Get What He/She Ordered On Time?

- Is customer service implemented without disruption of service or dropped features?
- Will the change order be completed as quickly as the current standard for long-distance carrier changes?

Four: Will the Customer Receive a Timely, Accurate Bill?

 Will the RBOC and GTE provide data to competitors electronically and immediately, to avoid customer backbilling?

Five: Is the Service Satisfactory and Will the RBOC or GTE Fix It When It Breaks?

- Is the quality of service the same for ALL customers served over the network?
- Is trouble reporting and restoration response the same?

In addition to urging FCC and state PUC action to compel compliance with the Telecom Act and the FCC's implementing orders, the industry representatives pointed out that since these systems and functionalities are an absolute prerequisite to effective local telecommunications competition, no RBOC should be authorized by the FCC to provide long distance services as long as it fails to provide fully functioning OSS which it controls.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the "Reply Comments of Sprint Corporation" have been hand delivered or sent via first-class mail, postage-prepaid, on this 14th day of February, 1997 to the parties on the attached service list:

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